

Auditor's report



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To the Supervisory Board of SpareBank 1 SMN

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SpareBank 1 SMN. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2017, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2017, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matters	Procedures for key audit matters
IT- systems and controls relevant to financial reporting	
<p>SpareBank 1 SMN's IT systems are essential for accounting and reporting of completed transactions. It provides the basis for important estimates and calculations and provides relevant additional information.</p> <p>The IT systems are standardized, and the management and operations are to a great extent outsourced to external service providers. For a more detailed description of the development, management and operation of IT systems in SpareBank 1 SMN, see note 6 in the financial statements.</p> <p>Proper management and control of IT systems both at SpareBank 1 SMN and their service providers are essential to ensure accurate, complete and reliable financial reporting. This area is therefore a key audit matter.</p>	<p>SpareBank 1 SMN has established internal control activities related to their IT systems. We have obtained an understanding of SpareBank 1 SMN's IT environment relevant to financial reporting.</p> <p>We assessed and tested the design of internal control activities related to IT systems and control activities which are relevant to the financial reporting, including selected controls related to operations, change management, and information security. We tested the operating effectiveness for a sample of these controls in the reporting period.</p> <p>We assessed and tested the design of a sample of automated controls related to, among others, computations, reconciliations and the settlement of transactions. For a sample of these controls we tested the operating effectiveness in the reporting period.</p> <p>We assessed the assurance report (ISAE 3402 report) issued by the independent auditor for SpareBank 1 SMN's service providers to assess whether they had adequate internal controls in areas that may be significant for SpareBank 1 SMN's financial reporting.</p> <p>We have engaged Deloitte's IT specialists in the work to understanding the overall governance model for IT and in the evaluation and testing of internal control activities related to IT.</p>
Impairment losses on loans within the corporate market	
<p>Loan to customers at 31 December 2017 amounts to MNOK 112.071, individual write-downs amounts to MNOK 765 and group write-downs amounts to MNOK 347. See Note 7-15 for a discussion of credit risk and impairment losses on loans and guarantees.</p> <p>There is considerable judgement in the Bank's evaluation of the size of the write-downs, both for individual loans and groups of loans within the corporate market. As a result of the current market situation for oil-related activity there is a significant uncertainty related to impairment losses within this industry. Judgement is related to the evaluation of the probability of default and loss given default.</p>	<p>SpareBank 1 SMN has established internal control activities related to write-downs on loans and provisions for losses on guarantees within segment industry.</p> <p>We assessed and tested the design of a sample of key control activities related to the process for write-downs of loans within the corporate market. The control activities were related to the identification of loans with indicators of value impairment and the assessment of cash flows for these loans. We tested the operating effectiveness for a sample of these controls in the reporting period.</p> <p>For a sample of loans with individual write-downs, we tested whether the loss event was timely identified and assessed the cash flows that management had estimated, including</p>



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<p>Assumptions and estimates used in these evaluations are essential for the size of the write-downs and impairments in the corporate market, including oil-related activities. It is therefore a key audit matter.</p>	<p>that value of collateral was based on external appraisals.</p> <p>For write-downs on loans calculated using models we tested the models' technical calculations by recalculating a sample of the calculations. We further tested the accuracy of a sample of the input data used in the calculations by comparing it to the information from the bank's IT systems. We also assessed material assumptions used in the models by comparing it to our own expectations based on general knowledge of the market and the Bank's operations.</p> <p>We also considered whether the notes to the financial statements about write-downs on loans and guarantees in the segment business were adequate.</p>
<p>Note information on capital requirement</p>	
<p>SpareBank 1 SMN is subject to the regulations on capital requirement in Financial Enterprises Act and associated regulations.</p> <p>The accounting regulations for banks require information on capital requirement in the notes to the financial statements. Note 5 to the financial statements provides information on, among other methods used, net capital, total calculation base and capital requirement.</p> <p>With the exception of engagements with governments and central banks, SpareBank 1 SMN utilizes internal measurement methods (IRB) for assessing credit risk. The use of IRB imposes wide-ranging requirement on the bank's organizational set-up, competence, risk models risk, management systems.</p> <p>SpareBank 1 SMN is required to comply, and at all times, satisfy the minimum capital requirement on entity and group level. The fact that compliance with the minimum capital requirement ratio is a condition for the Bank's operations and that the calculations are complex and based on a number of assumptions and estimates, makes it a key audit matter.</p>	<p>SpareBank 1 SMN has established internal control activities related to the calculation of net subordinated capital, total calculation base and capital requirement. We have assessed and tested the design of the internal control activities that we deemed most significant. The internal control activities we tested were related to the completeness of the data transfer and the calculation of the risk-weighted calculation base. We tested the operating effectiveness for a sample of these controls in the reporting period.</p> <p>We assessed SpareBank 1 SMN's interpretations of the capital adequacy regulations on selected areas against the capital adequacy regulations and industry practice.</p> <p>Furthermore, we tested the accuracy of calculation of selected items included in regulatory capital.</p> <p>We also assessed whether other information in the note on capital requirement was adequate.</p>



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Other information

Management is responsible for the other information. The other information comprises the Annual Report of 2017, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Trondheim, 28 February 2018
Deloitte AS

Mette Estenstad
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.